

Course Description and Syllabus

Instructor:Professor: Benjamin Segal, bs2992@columbia.edu

Office hours: After class or by appointment

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Office hours: By appointment

Admin. Assistants:**Course Objective:**

The objective of the course is to provide students with hands-on experience in financial statement analysis. Students will be exposed to general tools of financial analysis, theoretical concepts, and practical valuation issues. By the end of the course, students should be comfortable with using firms' financial statements to develop an understanding of their performance and to establish a basis for making reasonable valuation estimates.

Course content and organization:

In this course students will be exposed to a comprehensive financial statement analysis and valuation framework that integrates strategy, financial reporting, financial analysis and valuation, and the application of this framework to fundamental analysis.

The first half of the course develops an accounting-based valuation framework that integrates a firm's strategy, its financial performance, and its accounting credibility. Two main topics will be covered:

- Reporting strategy analysis: assessing a firm's value proposition and identifying key value drivers and risks; evaluating the degree to which a firm's accounting policies capture the underlying business reality; assessing a firm's earnings quality; making accounting adjustments to eliminate management biases.
- Performance analysis and valuation: evaluating current performance and its future sustainability, making forecasts of future profitability and risk, and valuing businesses using earnings and book value data.

The second half of the course applies the above framework to a variety of business valuation contexts, including equity-investment analysis, IPOs, and mergers.

Connection to the core

The learning in this course will utilize, build on and extend concepts covered in the following core courses. Students will be expected to have mastered these concepts and be able to apply them in the course.

Core Course	Connection with Core
Financial Accounting	<ul style="list-style-type: none">• The different financial statements and their line items• The “accounting equation” (Assets = Liabilities + Equity)• Accounting concepts (e.g., revenue recognition, matching)• Cash vs. accrual accounting
Corporate Finance	<ul style="list-style-type: none">• Firm valuation model• Cost of capital (e.g. CAPM, WACC)• Time value of money
Strategy Formulation	<ul style="list-style-type: none">• Sources of economic value

Who should take this course?

This course is aimed at all students who expect at some point in their careers to use financial statements to evaluate the performance, prospects, and value of a business. The primary emphasis will be on the analysis of public companies, but many tools and techniques utilized are relevant to private enterprise financial analysis as well.

Please note that this is not a course on “forensic accounting.” We will focus on accounting issues so that we can “cleanse” the financial statements before we carry out any analysis. Please look through the session by session outline to get a better feel for what this course entails.

Emphasis on Cases:

We will use the case method almost exclusively in this course.

Method of Evaluation:

Grading will be based on a combination of the following.

Assignments (may be submitted in groups): 10%

Class Participation 30%

Project (may be submitted in groups): 60%

[In accordance with Columbia Business School’s policy all grade appeals should be made in writing].

Class Participation:

Class Participation is essential for a course such as Financial Statement Analysis and Valuation to ensure that one learns from the experiences of others and meaningfully contributes to the overall

discussion. Grading for class participation will be based on factors such as quality of participation, interest, level of participation, and attendance. Everyone should come to class having read the materials assigned and prepared the cases. I will cold call in class, both at the beginning of the case discussion and during the class.

Project:

To deepen students' ability to apply the course skills in a practical context, they will work on a project (may be submitted in groups of 3 or less). Students will apply complete financial statement analysis of a firm of their choice, using the course framework. Additional information will be provided about the project, as the course progresses. (Assignment Type B).

Assignments:

Students will need to submit several assignments during the course, as basis for class discussion (may be submitted in groups of 3 or less). See detailed list of assignments at the end of this document.

Curriculum Materials:

This course will follow the textbook, "Business Analysis and Valuation using Financial Statements", By Palepu & Healy (5th edition).

There are two versions of the book. It is usually easier (and less expensive) to get the edition without the cases as the relevant cases are in the course packet. It is a hard-cover book: ISBN-13: 978-1111972301 (ISBN-10 1111972303). The book should look like the picture below. **However, if you cannot get this edition, older editions and even the international editions will serve you well** (although chapter numbers may differ). The used older versions can easily be located via addall.com book search website. e.g. [AddALL Book Search and Price Comparison](http://addall.com)

In addition, I will occasionally provide handouts, research papers relevant to the course, and clippings from the business press. I will use CANVAS for posting assignments, announcements, and grades.

		Course Outline	(Refer to CANVAS for details)	
	Module	Topic	Case /Lecture	Readings
	Introduction	Course Overview	HurryDate	Chapter 1
	Accounting Analysis	Revenue Recognition	Bausch & Lomb, Inc. (A)	Chapter 4
	Accounting Analysis	Consolidation	Boston Chicken, Inc.	
	Accounting Analysis	Consolidation	Boston Chicken, Inc. (contd.)	
	Accounting Analysis	Depreciation choices	Depreciation at Delta Air Lines and Singapore Airlines	
	Financial Analysis	Debt Covenants	Home Depot, Inc.	Chapter 5
	Financial Analysis	Financial Ratios	Target Corporation: Ackman versus the Board	
	Prospective Analysis - Forecasting	Forecasting (stores)	Krispy Kreme Doughnuts	Chapter 6
	Prospective Analysis - Forecasting	Forecasting (mean reversion)	Lecture - Dupont	
	Prospective Analysis - Forecasting	Forecasting (condensed ratios)	Corrections Corp. of America	
	Prospective Analysis – Valuation	Residual Income (RI) Model	Lecture - RI/DCF	Chapter 7
	Prospective Analysis – Valuation	Application RI, PB, PE	Exercises	Chapter 8
	Prospective Analysis – Valuation	Review Class and Project	Lecture - Review	
	Applications	Plain Vanilla Valuation	Ryanair Holdings plc	
	Applications	IPO (session 1)	United Parcel Service's IPO	
	Applications	IPO (session 2)	United Parcel Service's IPO	
	Applications	Emergence from Bankruptcy	Eddie Bauer (A)	
	Applications	M&A	Schneider and Square D	Chapter 11
	Applications	LBO	Dollar General Going Private	
	Financial Analysis of Banks	Regulatory Capital	Citigroup 2007: Financial Reporting and Regulatory Capital	
	Summary	Wrap-up	Summary/Debrief	

<u>Cases and assignments submission</u>	
<u>Case/Assignment</u>	<u>Required/Optional/Choice</u>
HurryDate	Required
Bausch & Lomb	Choose 5
Boston Chicken	Choose 5
Depreciation at Delta Air Lines and Singapore Airlines	Choose 5
Home Depot, Inc.	Choose 5
Target Corporation: Ackman versus the Board	Choose 5
Krispy Kreme Doughnuts	Required
Corrections Corp. of America	Choose 5
Valuation Exercises	Choose 5
Ryanair Holdings plc	Required
United Parcel Service's IPO	Choose 5
Eddie Bauer	Choose 5
Schneider and Square D	Optional
Dollar General Going Private	Choose 5
Citigroup	Optional

- Total required submissions: 8 (3 required + 5 of 10)